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May 26, 2006

HAND DELIVERY

DOCKET OFFICE
California Public Utilities Commission
505 Van Ness Avenue, Room 2001
San Francisco, CA 94102

RE: Order Instituting Rulemaking Regarding Policies, Procedures, and Rules for the
California Solar Initiative, the Self-Generation Incentive Program and Other
Distributed Generation Issues, R.06-03-004

Dear Docket Clerk:

Enclosed for filing are an original and (5) copies of "Reply Comments of Pacific Gas and Electric Company on the Staff Proposal for Performance Based Incentives and Other Elements of the California Solar Initiative" in the above-referenced matter.

Please file the original and return the stamped copy in the envelope provided. Thank you for your assistance with this matter.

Sincerely,

/s/

Randall J. Litteneker

RJL/pat

cc: ALJ Dorothy Duda
Michael R. Peevey, President
Valerie Beck, Energy Division
All Parties on Official Service List for R.06-03-004

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding
Policies, Procedures and Rules for the
California Solar Initiative, the Self-Generation
Incentive Program and Other Distributed
Generation Issues.

Rulemaking 06-03-004

**REPLY COMMENTS OF PACIFIC GAS & ELECTRIC
COMPANY ON THE STAFF PROPOSAL FOR
PERFORMANCE BASED INCENTIVES AND OTHER
ELEMENTS OF THE CALIFORNIA SOLAR INITIATIVE**

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I. EXECUTIVE SUMMARY

In accordance with the Ruling by Administrative Law Judge Duda issued on April 25, 2006, Pacific Gas and Electric Company respectfully submits these Reply Comments on the Staff Proposal for Performance Based Incentives and Other Elements of the California Solar Initiative (CSI). PG&E appreciates this opportunity to address these issues. As requested in Judge Duda's Ruling With Additional Guidance of May 9, these comments address issues in all of the sections of the Staff Proposal, excluding sections 2.1 and 2.2.

As is described more fully below, the most significant of PG&E's suggestions for change is that PG&E should be allowed to administer the CSI to all customer segments in its service area. Most parties filing Opening Comments agreed, including many solar groups and ratepayer advocates. A few parties disagreed without explaining why, or merely stated that utilities have a perceived conflict of interest. NorCal Solar Energy Association made a variety of inaccurate and confusing arguments against utility administration, which are discussed in detail below.

PG&E has demonstrated its ability to handle high volume incentive programs, has a very successful track record administering the self-generation incentive program (SGIP), and has demonstrated support for solar power in multiple ways, including the successful interconnection of over half the solar projects installed in the entire United States in 2004, with many thousands more systems installed in 2005 and 2006. PG&E administration would be an efficient and cost effective way to avoid dispersal of activities among many agencies and administrators. Moreover, to rule otherwise would directly contradict the CPUC's directions on energy efficiency administration and weaken its jurisdiction and control over any non-utility administrator. In addition, it would not be prudent to create a risk for customers of potentially higher taxes resulting from use of a non-utility administrator until the tax issue is clarified by the IRS. Finally, PG&E makes no profit from administering this program; therefore there will be no savings by moving to a "non-profit" entity. Given the low overhead demonstrated in its administration of the SGIP, PG&E administration is the clear cost-effective choice.

PG&E's responses to other Opening Comments on the Staff Proposal are addressed below.

II. DISCUSSION

As requested in Judge Duda's Supplemental Ruling of May 9, the following sections are numbered with the same numbering system as those used in the Staff Proposal.

2.3. Performance Based Incentive -- Large Solar PV Systems > 100 kW

The City and County of San Francisco (CCSF) proposes requiring performance warranties on solar installations in lieu of the PBI. Their position is that liquidated damages for non-performance would incent contractors to do a good job and that a PBI would add nothing to this incentive. (CCSF p. 2) PG&E agrees that a warranty with

liquidated damages would incent appropriate contractor behavior, but disagrees that this is a better incentive than a PBI. The warranty is between the contractor and the customer installing the solar generator. A PBI is essentially an agreement between the customer installing the generator and other customers (who are paying the PBI incentive). A warranty provides no guarantee to *ratepayers* that the system will perform as planned (or else the incentive will be reduced). Only a PBI will provide this guarantee to ratepayers. If the installing customer wants to also obtain a warranty from the contractor to shift the risk of nonperformance to the contractor, it may do so.

Many parties addressed incentive levels, with many objecting to the incentives proposed by Staff for 2007 and beyond. PG&E has no specific comments regarding most of these suggestions, and does not know if the incentive levels proposed by Staff are too high or too low. However, some parties proposed increasing the incentives to levels that are effectively well above the guidelines adopted by the CPUC in D.06-01-024.¹ PG&E does not support these proposals, particularly given the high number of applications it still has pending this year. In setting incentives for the PBI program, the per kWh incentives should be set in order to achieve the same estimated total rebate on a net present value basis as the capacity based targets already adopted by the CPUC. The CPUC's CSI program, including budget and incentive levels, was designed to accomplish a goal of market transformation that is based, at least in part, on certain increases in MWs of installed PV and steadily declining rebates. If incentives are increased beyond the levels

¹ ASPv proposed a PBI incentive of \$0.492 per kWh and does not provide the equivalent capacity rebate level. If you assume a capacity factor of 18%, the equivalent capacity rebate is \$3.88 per Watt and if you assume a capacity factor of 20%, it's \$4.31 per Watt. That is far above the \$2.50 to \$2.80 per Watt incentive level in effect in 2006. Golden Sierra suggests a PBI level of \$0.36 and \$0.40 per kWh, which is somewhat lower, but still above the capacity figures in the CSI decision.

set by the CSI decision, then that market transformation can be jeopardized or delayed, and there is yet no demonstrated need for higher incentives. The more budget funds are spent on higher incentive levels, the fewer MWs will ultimately be installed. PG&E does not object to decoupling the predicted incentive reductions from the calendar, but they should not be decoupled from the MW trigger goals.

In Opening Comments, PG&E suggested the CPUC consider incorporating the time value of money into the Performance Based Incentive (PBI) design. Some parties agreed with this suggestion. (See, for example, Joint Solar Parties, p. 7). Suggestions were made as to the interest rate that could be employed to address this, some as high at 10% per year. Without addressing the actual interest rate to be adopted, PG&E recommends the Commission incorporate the time value of money in such a way as to hold nonparticipating ratepayers indifferent. The following methodology would accomplish that goal. The per-kWh incentive would be calculated based on an estimate of the expected generation over the five year period and the expected payout available using an estimate of the likely interest the sum to be paid would earn over the five year period. This accomplishes two goals: nonparticipating ratepayers are indifferent to the fact the PBI incentive is higher than the simple pay-out described in the staff proposal; and participating customers are paid at a higher rate than they would be otherwise – thus reducing or eliminating the negative economic impact of the switch to PBI.

2.4 Expected Performance Based Buy Down Incentive -- Small Solar PV Systems < 100 kW and 2.5. System Size Adjustment

The Staff Proposal for the system sizing calculation uses the following formula:

Estimated System Rating = Number of PV x PV PTC Module Rating x Inverter Efficiency x Other Losses (90%)

While a number of parties commented on this system sizing calculation, and recommended different sizing calculations, PG&E agrees with the Joint Solar Parties (p. 27) that this represents a reasonable approximation of how systems will operate in the field, and suggests that the Commission base EPBB payments on the Estimated System Rating. PG&E also agrees that the Design Factor be incorporated into the System Sizing, in that the system output and performance should be modeled via an on-line tool such as the Clean Power Estimator or PV Watts, and compared to a baseline output. This will appropriately encourage efficient installations. However, PG&E feels that the Design Factor should be verified via post-installation inspection (where the number of PV modules, orientation, azimuth, etc can be verified) rather than the Verified Rating, which would compare this to one month of measured system output. Not only would the Verified Rating be administratively burdensome, it is problematic to look at a one-month snapshot and extrapolate into an annual production estimate, particularly as solar systems generate more or less energy depending on the availability of sunlight. For example, if the one-month period occurs in a winter month when the solar resource is minimal, it may be difficult to take into account the weather variation and solar availability for the summer months, and extrapolate to a full year.

3. Incentives For Non-PV Solar Technologies

In its Opening Comments, PG&E addressed incentives for non-PV solar electric equipment. Many other parties addressed incentives for non-electric equipment utilizing solar power, including water heating and heating, ventilation and air conditioning. Most parties support inclusion of non-PV/non-electric solar technologies in the CSI. ASPv and SDREO suggested the solar hot water pilot should be extended to a statewide program.

Solargenix stated that all solar technologies should receive the same incentive, with the market determining the successful technologies. Energy Innovations disagreed with the Staff Proposal to reduce rebates for concentrating solar power at a faster rate than photovoltaic power. The Consumer Federation of California maintained that CSI funds should not be diverted to non-PV technologies that are not cost-effective and calls for pilot projects to determine cost-effectiveness before incentives are provided. Some parties provided extensive discussion and analysis on how to incorporate non-solar technologies. (See Solargenix, pp. 3-4; ASPv, pp. 15-23; Joint Solar Parties, pp. 34-37).

PG&E agrees with parties supporting inclusion of non-PV solar technologies in the CSI and supports a regular, deliberate process to expand the program to include these technologies. From time to time since its inception, there have been requests to include additional technologies in the SGIP. PG&E proposes that the Commission institute a process for evaluating such requests, where any proposed technology can receive dispassionate evaluation before inclusion. As part of that process, the Commission would set the rebate level, with input from program administrators and other interested stakeholders. PG&E sees no reason for identical rebates for every technology. This has never been the case with the SGIP or with energy efficiency programs. Generally, incentives should be tailored to market conditions for each technology. If new technologies can be encouraged to come on line for a price lower than needed to encourage PV, then there is no need to overpay. However, cost-effectiveness to the customer receiving the incentive alone may not accurately determine the appropriate incentive level, because initial cost to the participating customer may not be the only market barrier, particularly for products not now widely used.

4. Incentive Trigger Adjustment Mechanism Over The 10-Year Period

The majority of respondents who addressed the issue of trigger mechanisms endorsed the idea of a volume-based, rather than time-based reduction in incentive levels. The primary reasons for support tended to be simplicity and transparency, provided timely information is provided to the market regarding the level of subscription. (See, for example, CalSEIA, PVNow, Vote Solar, p. 3; TURN p. 4; SCE p. 10; ASPv p. 23).

PG&E is supportive of a volume-based trigger mechanism provided it remains within the annual budgets set by the Commission last January. In addition to the reasons cited above, a trigger approach is practical, consistent with the philosophy of the CSI Program and keeps the program within budget. The incentives should decline over time as the industry advances technologically and commercially, however the timing of that advance is not likely to proceed in a linear manner or according to a particular calendar. As TURN rightly points out, the program must remain within budget in order to provide the long term stability necessary to make the industry self-sustaining. Obviously, the CPUC will want to retain some flexibility so that it can revise this approach if it discovers that the incentive levels set in D.06-01-024 are too high or too low.

Joint Solar Parties CalSEIA, PVNow, and Vote Solar argued that the adjustment in incentive level should be by service area, rather than statewide. They argued that in service areas like PG&E's, that show far greater market penetration of solar, waiting for the other utilities to catch up before reducing incentives will result in overpayment and a flood of applications, while the applications lag in other areas. They argued that adjusting the incentive on a utility by utility basis is fairer, easier to administer, and easier for the

market to follow. See Joint Solar Parties at pp. 13-15. PG&E strongly agrees, and encourages the Commission to adopt this proposal by CalSEIA, PVNow, and Vote Solar.

Two parties commented on the topic of reducing the drop out rate. SDREO stated that the application fee had helped reduce the drop out rate in their territory and support the application fee. Golden Sierra Power stated that the application fee added an additional level of bureaucracy to projects that precluded certain projects from participating, particularly public entities. (p. 8). Although we have not heard this concern from public entities that participate in the SGIP, we understand that some public entities have special circumstances and processes. If the Application Fee is restrictive for public entities, we would be willing to explore an alternate procedural mechanism for public entities only that would ensure the project is committed and viable. We would also consider an alternate requirement for residential customers if it is shown that an application fee would restrict program participation. However, we support keeping the application fee for non-residential non-public entities, as it has reduced the drop out rate for projects (once the application fee has been paid) in PG&E's experience administering the SGIP.

5. Funding Levels

Many parties agreed with the position in PG&E's Opening Comments that the budgets for different customer classes must be further divided. This would ensure that a few large projects do not utilize all funding, so that none is available for residential customers (for example). This issue of budgets is also very important if there are to be multiple program administrators for separate portions of the program, such that the parties will know what budget they are administering, and whether they are even able to enter into contracts to grant incentives.

6. **Incentive Administration: PG&E Should Be The Administrator Of The CSI for All Customer Segments In Its Service Area.**

The large majority of Opening Comments opposed the Staff proposal to give administration of the CSI for all projects smaller than 100 kW to a non-profit, non-utility administrator. Most significantly, CalSEIA, PV Now, and Vote Solar argued that current SGIP administrators should continue to administer the CSI. They noted the tax issue supported utility administration, and pointed out that the proposal to select a non-utility administrator and begin operations by next January is simply impracticable. Joint Solar Parties pp. 30-31. Further, the City and County of San Francisco noted its “established working relationship with PG&E.” (CCSF p. 3). The Division of Ratepayer Advocates (DRA) also supported administration by the existing SGIP administrators. DRA noted that 1) the CPUC will be able to most effectively oversee the existing IOUs as CSI program administrators without the addition of yet another new entity; 2) allowing the utilities to administer the CSI program will allow better coordination with energy efficiency programs; 3) any potential conflict of interest issues are outweighed by the need of the CPUC to learn how to oversee a new entity; and 4) the 100 kW cutoff is arbitrary and unsupported. (DRA Opening Brief pp. 2-3). SDG&E/San Diego Gas and Electric and SCE made similar showings, and demonstrated their extensive experience with administration of customer incentive programs. Finally, TURN supported continuing utility administration so long as four conditions were met: cost-based rate recovery, no shareholder incentives, reasonable overhead, and customer satisfaction measured and reported on a regular basis. (TURN pp. 5-6). All four elements are part of the Staff proposal, and PG&E does not object to any of these elements.

Only four parties supported the Staff proposal to exclude utilities from administration of almost the entire CSI. One was Americans for Solar Power (ASpv) which offered no explanation for its position. (ASpv pp. 25-26). Similarly, Golden Sierra Power and the San Diego Regional Energy Office supported administration by a non-profit, arguing only that a non-profit has no perceived “conflict of interest.” However, as PG&E explained in its Opening Comments, PG&E has no “conflict of interest.” It has a long history of successfully supporting solar power, and its shareholders are protected by balancing accounts against losses due to the solar program.

The most extensive comments supporting non-profit administration were by NorCal Solar Energy Association (NCSEA), which made four sets of arguments, all profoundly misplaced. First, NCSEA seems strongly opposed to nuclear power and hydropower, and wants to blame the utilities for owning such generation. PG&E offers no apologies for owning either kind of generation, since both have provided substantial cost savings to customers over the long lives of these plants and have helped reduce greenhouse gas emissions. NCSEA’s hostility to other types of generation is no basis for disqualifying utilities as administrators of the CSI. PG&E supports diversity in our energy supply portfolio, which includes support for solar energy.

Second, NCSEA argues that the IOUs have tried to limit distributed generation (DG) in the residential sector through positions they have taken on proposals for new subsidies for DG. Once again, this description is inaccurate. PG&E in fact has tried to give the Commission and the legislature clear and realistic information about the cost of various proposed programs. For example, at times parties have argued that the CPUC could give large incentives to millions of solar projects and thereby reduce rates to other

customers. PG&E explained that creating multi-billion solar incentive programs was likely to increase rates to non-participating customers, and that the amount of the increase would vary depending on program details. Both the CPUC and the legislature have agreed and acknowledged that the proposed CSI will entail real costs. However, once those costs have been quantified and the impact on nonparticipating customers has been included in Commission policy setting, as occurred in January when the CPUC adopted the CSI, PG&E has been proud to support such programs.

NCSEA's third argument was that IOU cost of administering energy efficiency programs have been nearly 40% of program costs. This figure is not supported, and in fact is nonsense. The actual cost of administration of energy efficiency programs has been well below 15%. Moreover, PG&E's costs of administering the SGIP have been far lower, at only 2.5% of program costs. False and wildly inaccurate claims are not an appropriate basis to exclude the utilities from administering the CSI.

Finally, NCSEA argued that a non-profit entity is needed to achieve "open governance," arguing that the IOUs have failed to achieve an open decision making process in setting program policy. However, the IOUs do not set the policy for the SGIP, and will not set the policy for the CSI. Those policies are set by the CPUC. The administrator's role is to see whether applicants qualify for incentives, and if they do, to promptly provide them with their incentives upon completion of necessary milestones. By all measures, including customer surveys, PG&E has been extremely successful as an administrator of the SGIP, and will be just as good as an administrator of the CSI.

One or two parties have complained that data on the SGIP program is not available, who seem to be unaware that such information has long been available on PG&E's web

site. This data has aggregated program statistics, as well as other information, and is available at:

http://www.pge.com/suppliers_purchasing/new_generator/incentive/available_funding_and_program_statistics.html. PG&E has done an excellent job providing market participants with information and statistics on the status of the SGIP, and is happy to continue providing non-customer specific data on the program.

Numerous parties supported the Staff suggestion that the Commission seek an IRS ruling about whether non-utility administration would cause incentives to become taxable to the recipient. PG&E strongly encourages the Commission to seek such a ruling, and to hold off on creating new non-utility administrators if there is any risk that the recipients could be subject to increased and unwelcome taxes as a result of this administrative structure.

PG&E has demonstrated an excellent track record in administering the SGIP, and that it can perform additional functions such as energy efficiency coordination, education and outreach -- because it is already doing so. It does not make any sense to hand over a program of this magnitude and this importance to a third-party organization that lacks experience and a proven track record. Finally, as the Commission recognized in D.05-01-055, turning utility dollars over to third-party administrators can weaken Commission control of program implementation and delivery. PG&E should be permitted to administer the CSI incentives to all customer segments in its service area.

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7. Metering Requirements

PG&E supports metering standards that allow for secure, accurate, and cost-effective metering that will be compatible with the utilities' proposed Advanced Metering Infrastructure (AMI).

The treatment of Net Energy Metering – Combined Technologies (NEM-CT) is currently being addressed at the Commission. PG&E concurs with the San Diego Regional Energy Office (SDREO) recommendation that the Commission delay specifying a rule for the treatment of combined technologies for the CSI until this issue has been resolved.

PG&E agrees with the recommendation of SDG&E/SoCalGas that if third party metering is ultimately deemed appropriate by the Commission, statewide standards should be developed, perhaps within a future CSI Working Group with input from industry stakeholders. Having consistent metering, monitoring and reporting standards will simplify implementation and keep costs down. PG&E would recommend that these standards be developed in such a way as to be compatible with the utilities' proposed AMI technology. This will help to reduce stranded costs and allow for a smoother transition to AMI for customers with solar systems.

PG&E is in agreement with the Consumer Federation of California that the Commission should carefully study the cost-effectiveness of the metering and monitoring standards proposed in parties' opening comments, as there is insufficient data on the record to support a final decision. For example, Fat Spaniel Technologies, Inc. asserts, "While manual auditing of non-independent reporting processes is an option, ... [it is] an expensive option that far exceeds the cost of independent metering services." (page 4). It provides no data supporting this claim. A decision on issues like this should be made based on facts rather than unsupported statements.

7.3. Net Metering Considerations

Several parties commenting on net metering addressed items beyond the scope of the Staff Proposal. For instance, Californians for Renewable Energy, Inc. (CARE) proposed that the California net metering program be changed to “significantly increase”² benefits to customer-generators. This overlooks the fact that the solar net metering program in California is governed by statute and is already quite generous for customers served by an electrical corporation such as PG&E.³ In addition to credits for exports discussed in more detail below, net metered customers pay reduced costs for interconnection compared with other distributed generators (DG). They are also exempt from standby charges and from nonbypassable charges.

CARE understates the current benefits received by solar net metered customers. While some publicly owned utilities are free to offer lesser benefits,⁴ PG&E customers eligible for net metering receive a retail credit for exports that can be used to offset electric charges over the course of the year including such items as Transmission, Distribution and Public Purpose Program charges for power provided to the customer by PG&E.

CARE also proposes development of a special Time of Use (TOU) rate for solar customers. That would require amending the legislation governing the current net metering program, which requires utilities to offer solar customers the same rate choices available to customers without a solar generator. Currently, about half of PG&E’s net metered customers take service on a TOU rate. Most customers make the choice depending on what rate is most beneficial to them. Whatever rate the customer selects, all net usage at the end of the month is charged based on the rate selected by the customer.

² CARE Comments page 1.

³ CA PUC Code section 2827.

⁴ CA PUC Code section 2827(i).

Likewise, all net exports at the end of the month are credited to the customer based on the full retail charge of the customer's chosen rate. These credits, especially for exports during peak periods for customers on a TOU rate, can be over thirty cents per kwh, substantially above the market price for power. As described above, these credits can be used to offset almost all charges for electrical usage that is very beneficial to solar net metered customers.⁵ In fact, of the over 3000 PG&E customers who showed a credit at the time of their annual true-up, more than 2000 were actually net consumers. That means they used more electricity than they exported to the grid – and paid almost nothing. The compensation for their exports more than eliminated all usage costs.

Other parties such as the California Farm Bureau Federation also advocate for changes to the net metering program to make it even more advantageous for their constituents. PG&E does not believe the Commission can or should increase net metering benefits. However, the Commission should complete the staff's stated goal of estimating the full costs to non-solar customers of the current net metering program under various scenarios.

8. Energy Efficiency Requirements Tied To Solar Incentives

As stated in its Opening Comments, PG&E supports an energy efficiency component for the CSI. On the linkage between the CSI and energy efficiency, it has responses to several parties' comments.

PG&E agrees with DRA that audits are an extremely important tool for informing customers of the benefits of cost-effective energy efficiency.

⁵ Customers must pay certain minimum charges included in the customer's selected rate, and if applicable, meter charges and demand charges.

Both DRA and SCE suggest audits should meet a minimum quality standard or “baseline.” PG&E concurs. Particularly if the audit results in customer participation in energy efficiency programs, the audit should be consistent with the IOU audit offered in that area. Otherwise customer confusion and disappointment could result.

DRA points out that audits associated with the CSI were not envisioned or funded in the recently approved energy efficiency budgets, and these costs could disrupt the IOU’s energy efficiency plans. PG&E concurs, but believes the situation is manageable. For example if a customer, after a CSI energy efficiency audit, achieves energy efficiency by some minimum amount, or achieves energy savings above some percentage of the audit recommendations, through IOU energy efficiency programs, the audit could be charged to authorized EE funds. Otherwise, the audit’s costs would be born elsewhere.

One factor the Commission will need to consider is how load reductions gained through energy efficiency measures as a consequence of the CSI will be treated in the context of each utility’s energy efficiency goals. In order for these reductions to be quantified, PG&E agrees with SCE and recommends that all energy efficiency audits and measures be consistent with existing utility-administered energy efficiency program standards. This will allow load reductions associated with energy efficiency measures to be more easily measured using the Commission’s approved energy efficiency impact measurement protocols. If the efficiency improvements occur through the IOU energy efficiency programs, it will in fact be the Commission’s Energy Division that will be responsible for measurement.

III. CONCLUSION

PG&E supports the solar program proposed by Staff, subject to the suggestions included in its Opening Comments and as addressed here.

Respectfully submitted,

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By: _____/s/_____
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Dated: May 26, 2006

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, California 94105.

On the 26th day of May, 2006, I served a true copy of:

**REPLY COMMENTS OF PACIFIC GAS & ELECTRIC
COMPANY ON THE STAFF PROPOSAL FOR
PERFORMANCE BASED INCENTIVES AND OTHER
ELEMENTS OF THE CALIFORNIA SOLAR INITIATIVE**

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to all parties on the official service list for CPUC Docket R.06-03-004 that have provided e-mail addresses.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on the 26th day of May, 2006 at San Francisco, California.

_____/s/
PAMELA TOM

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